

PERFORMANCE AUDIT
OF THE
STATE ADMINISTRATIVE BOARD
DEPARTMENT OF MANAGEMENT AND BUDGET

June 1998

EXECUTIVE DIGEST

STATE ADMINISTRATIVE BOARD

INTRODUCTION	This report, issued in June 1998, contains the results of our performance audit* of the State Administrative Board, Department of Management and Budget (DMB).
AUDIT PURPOSE	This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency* .
BACKGROUND	<p>The Board was created by Act 2, P.A. 1921 (Sections 17.1 - 17.501 of the <i>Michigan Compiled Laws</i>). The statutory members of the Board are the Governor, Lieutenant Governor, Secretary of State, Attorney General, Superintendent of Public Instruction, and State Treasurer.</p> <p>The Board is empowered to adopt rules and regulations governing its procedures for the conduct of its business. The Board has authority to exercise general supervisory control over the functions and activities of all administrative departments, boards, commissions, and officers of the State.</p>

* See glossary on page 15 for definition.

Traditionally, the Board has conducted many of its review functions through standing committees which make recommendations to the Board by formal reports. The three active committees are: Finance and Claims, Building, and Transportation and Natural Resources.

The Board has no direct employees. DMB provides clerical, management, and other general services to the Board.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To assess the effectiveness and efficiency of the Board's general supervisory control over the functions and activities of all departments, boards, commissions, and officers of the State.

Conclusion: The Board was generally effective and efficient in providing general supervisory control over the functions and activities of all departments, boards, commissions, and officers of the State. However, we noted a reportable condition* related to minor claims against the State (Finding 1).

Audit Objective: To assess the Board's compliance with applicable statutes, the *Michigan Administrative Code*, State procedures, and departmental policies and procedures.

Conclusion: The Board complied with applicable statutes, the *Michigan Administrative Code*, State procedures, and departmental policies and procedures.

**AUDIT SCOPE AND
METHODOLOGY**

Our audit scope was to examine the records of the State Administrative Board. Our audit was conducted in accordance with *Government Auditing Standards* issued

* See glossary on page 15 for definition.
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by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our audit methodology included an examination of the Board's minutes, records, and activities for the period October 1, 1995 through November 30, 1997.

We performed a preliminary survey to obtain an understanding of the Board's internal control structure* as it pertains to the effectiveness and efficiency of the Board's general supervisory control over the functions and activities of all departments, boards, commissions, and officers of the State. We identified and reviewed the significant internal controls.

We interviewed persons associated with the Board. We examined relevant State statutes, rules, regulations, and procedures. We also examined the Board's minutes, committee minutes, approved resolutions, and policies and procedures.

We reviewed contracts and claims processed by the Board for calendar years 1996 and 1997. In addition, we documented the procedures involved in processing contracts and small claims against the State.

**AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our audit report includes one finding and one corresponding recommendation. DMB's preliminary response indicated that it will comply with the recommendation.

The Board complied with the two prior audit recommendations.

* See glossary on page 15 for definition.
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Ms. Janet E. Phipps, Director
Department of Management and Budget
Lewis Cass Building
Lansing, Michigan

Dear Ms. Phipps:

This is our report on the performance audit of the State Administrative Board, Department of Management and Budget.

This report contains our executive digest; description of agency; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, finding, recommendation, and agency preliminary response; and a glossary of acronyms and terms.

Our comments, finding, and recommendation are organized by audit objective. The agency preliminary response was taken from the agency's response subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

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Description of Agency

The State Administrative Board was created by Act 2, P.A. 1921 (Sections 17.1 - 17.501 of the *Michigan Compiled Laws*). It was transferred as an organizational entity to the Department of Management and Budget (DMB) by the Executive Organization Act of 1965. The statutory members of the Board are the Governor, who serves as chairman; Lieutenant Governor; Secretary of State; Attorney General; Superintendent of Public Instruction; and State Treasurer.

The Board is empowered to adopt rules and regulations governing its procedures for the conduct of its business. The Board has authority to exercise general supervisory control over the functions and activities of all administrative departments, boards, commissions, and officers of the State. In addition to this broad grant of powers vested in the Board, it has been given many specific duties and responsibilities, including the approval of contracts and leases, investment of funds, travel regulations, and settlement of small claims against the State.

Traditionally, the Board has conducted many of its review functions through standing committees which make recommendations to the Board by formal reports. At least three members or their deputies sit on each committee. The committees meet the week preceding the regular biweekly Board meeting. The three active committees and their general functions are:

1. Finance and Claims

This committee reviews and recommends Board action on items relating to: authorization and allotment of capital outlay funding; bond financings; purchase of insurance; grants and contracts of \$250,000 or more; amendments to grants or contracts of \$125,000 or more; State copyrights and patents; records disposal; and settlement of small claims against the State.

2. Building

This committee reviews and recommends Board action on items relating to: award of State construction and professional services contracts; leasing of property for occupancy by State agencies; setting of State office building rental rates; transfer of certain State lands; and sale, acquisition, and easement of State land.

3. Transportation and Natural Resources

This committee reviews and recommends Board action on items relating to: agreements with municipalities; Bureau of Urban and Public Transportation contracts; highway design, planning, construction, and maintenance; railroad contracts and improvements; airport plans, construction, and maintenance; excess highway property sales; and oil, gas, and mineral leases.

The Board has no direct employees. DMB provides clerical, management, and other general services to the Board.

Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our performance audit of the State Administrative Board, Department of Management and Budget, had the following objectives:

1. To assess the effectiveness and efficiency of the Board's general supervisory control over the functions and activities of all departments, boards, commissions, and officers of the State.
2. To assess the Board's compliance with applicable statutes, the *Michigan Administrative Code*, State procedures, and departmental policies and procedures.

Audit Scope

Our audit scope was to examine the records of the State Administrative Board. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Audit Methodology

Our audit procedures were conducted during the months of November and December 1997 and included an examination of the Board's minutes, records, and activities for the period October 1, 1995 through November 30, 1997.

We performed a preliminary survey to obtain an understanding of the Board's internal control structure as it pertains to the effectiveness and efficiency of the Board's general supervisory control over the functions and activities of all departments, boards, commissions, and officers of the State. We identified and reviewed the significant internal controls over the Board's review and approval of contracts and leases which exceed \$250,000; investment of funds; travel regulations; and the settlement of small claims against the State.

We interviewed persons associated with the Board. We examined relevant State statutes, rules, regulations, and procedures. We also examined the Board's minutes, committee minutes, approved resolutions, and policies and procedures.

We reviewed contracts and claims processed by the Board for calendar years 1996 and 1997. In addition, we documented the procedures involved in processing contracts and small claims against the State.

Agency Responses and Prior Audit Follow-Up

Our audit report includes one finding and one corresponding recommendation. The Department of Management and Budget's preliminary response indicated that it will comply with the recommendation.

The agency preliminary response which follows the recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require the Board to develop a formal response to our audit finding and recommendation within 60 days after release of the audit report.

The Board complied with the two prior audit recommendations.

COMMENTS, FINDING, RECOMMENDATION, AND AGENCY PRELIMINARY RESPONSE

EFFECTIVENESS AND EFFICIENCY OF GENERAL SUPERVISORY CONTROL

COMMENT

Audit Objective: To assess the effectiveness and efficiency of the State Administrative Board's general supervisory control over the functions and activities of all departments, boards, commissions, and officers of the State.

Conclusion: The Board was generally effective and efficient in providing general supervisory control over the functions and activities of all departments, boards, commissions, and officers of the State. However, we noted a reportable condition related to minor claims against the State.

FINDING

1. Minor Claims

The Board did not request amendatory legislation that would allow the Board to delegate its authority for reviewing and resolving all minor claims against the State to the individual State departments.

Section 600.6419(1) of the *Michigan Compiled Laws* provides the Board with discretionary authority to hear, consider, determine, and allow any claim against the State in an amount less than \$1,000. In addition, Section 600.6420 of the *Michigan Compiled Laws* states:

The state administrative board may delegate the authority vested in it by section 6419(1) [600.6419(1)] for any claim of \$500.00 or less for damage or loss of personal property by a claimant who is an employee of the state, to the head of the department in which the claimant was employed.

The Board has delegated some of its responsibility to the departments concerning claims by State employees; however, the language in Section 600.6420 does not

address claims by members of the general public. In 1992, the Board drafted a position paper on authorizing individual State agencies to exercise full authority to review and resolve all claims of less than \$1,000 filed against the agency by State employees and members of the general public; however, the Board did not request amendatory legislation that would authorize this action.

We reviewed claims processed by the Board and noted that a significant number of claims were for minor dollar amounts. During the period January 1996 through November 1997, the Board reviewed and resolved the status of 1,188 claims totaling \$244,973. Of the 1,188 claims, 158 (13%) were for amounts ranging from \$251 to \$500 and 895 (75%) were for amounts of \$250 or less.

The Board could improve its effectiveness and efficiency by having individual departments review and resolve all claims for minor dollar amounts. We recognize that this change would require amendatory legislation.

RECOMMENDATION

We recommend that the Board request amendatory legislation that would allow the Board to delegate its authority for reviewing and resolving all minor claims against the State to the individual State departments.

AGENCY PRELIMINARY RESPONSE

The Department of Management and Budget indicated that it will pursue amendatory legislation.

COMPLIANCE WITH STATUTES, THE *MICHIGAN ADMINISTRATIVE CODE*, AND POLICIES AND PROCEDURES

COMMENT

Audit Objective: To assess the Board's compliance with applicable statutes, the *Michigan Administrative Code*, State procedures, and departmental policies and procedures.

Conclusion: The Board complied with applicable statutes, the *Michigan Administrative Code*, State procedures, and departmental policies and procedures.

Glossary of Acronyms and Terms

DMB	Department of Management and Budget.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of resources required to attain a certain level of outputs or outcomes.
internal control structure	The management control environment, management information system, and control policies and procedures established by management to provide reasonable assurance that goals are met; that resources are used in compliance with laws and regulations; and that valid and reliable performance related information is obtained and reported.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
reportable condition	A matter coming to the auditor's attention that, in his/her judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.